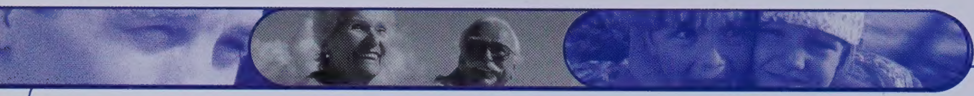
MELCOR DEVELOPMENTS LTD.

Annual Report 2001



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Melcor Developments Ltd. is primarily engaged in the following activities:

- the acquisition, planning, development and marketing of urban communities and the subsequent sale of single family, multiple family and commercial / industrial lots in Alberta in the metropolitan areas of Calgary, Edmonton, Lethbridge and Red Deer and in Arizona;
- the development of income producing properties in Alberta;
- the ownership and management of income producing properties in Western Canada; and
- the ownership and management of two championship golf courses in the Edmonton area.

Notice of Annual Meeting

The annual meeting of Shareholders will be held
at the Winspear Centre, Founders Room – Level 2,
9720 – 102 Avenue, Edmonton, Alberta, Canada
on the 8th day of May, 2002, at 11:00 a.m. MDT.

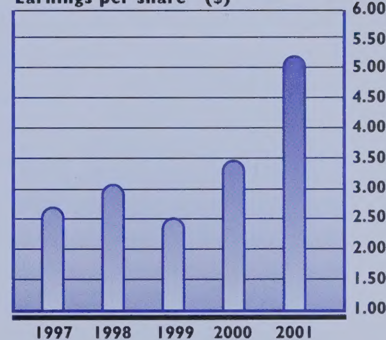
•Miller•Highland Pointe•Bridgeport•The Highlands•Terwillegar Gardens•Lewis Estates•Heather Glen•Stoneshire•Linkside•

Financial Highlights

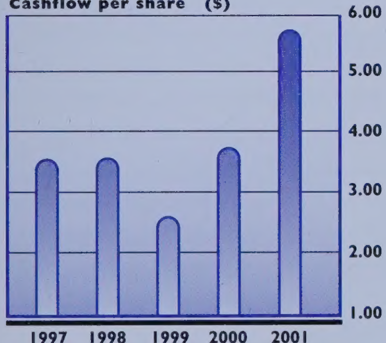
($)	2001	2000
Revenue	**82,607,000**	61,221,000
Earnings	**15,971,000**	10,630,000
Cash flow from operations before working capital changes	**17,437,000**	11,144,000
Assets	**177,218,000**	158,786,000
Shareholders' equity	**106,718,000**	92,885,000

Per Common Share		
Basic earnings	**5.26**	3.48
Diluted earnings	**5.21**	3.48
Cash flow from operations before working capital changes	**5.74**	3.64
Book value per share	**35.04**	30.57
Dividends paid	**0.90**	0.80

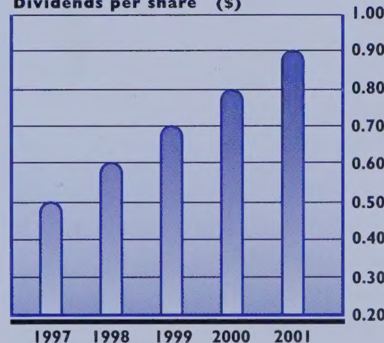
Earnings per share ($)



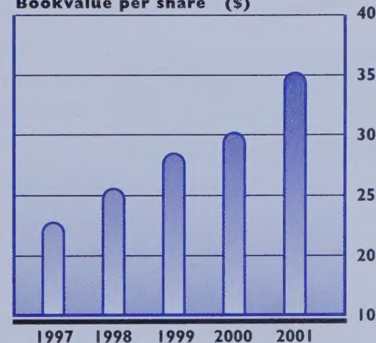
Cashflow per share ($)



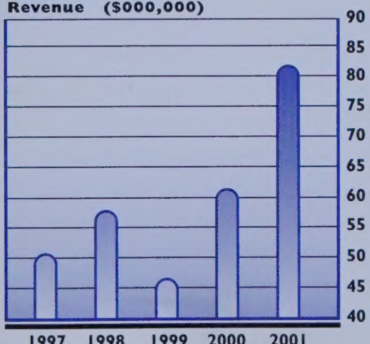
Dividends per share ($)



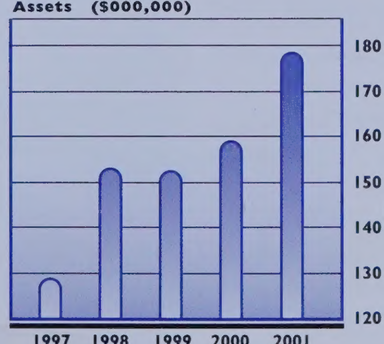
Bookvalue per share ($)



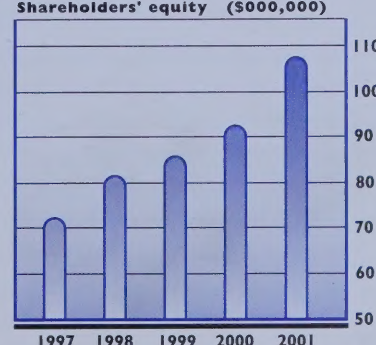
Revenue ($000,000)



Assets ($000,000)



Shareholders' equity ($000,000)



Report to Shareholders

On behalf of the Board of Directors we are pleased to report that 2001 was a very successful year for the Company. Net earnings for the year were up 50% to a record high of $15,971,000 or $5.26 per share compared to $10,630,000 or $3.48 per share in 2000. Cash from operations before changes in working capital was $5.74 per share compared to $3.64 per share in the prior year.

Shareholders were advised of a favourable outlook but the positive results achieved were certainly beyond expectations. We caution Shareholders that year to year results can fluctuate because of the volatile and cyclical nature of real estate markets. The Company's record of performance as indicated by trend lines over the past five years, depict an impressive record of growth, consistency and stability. While we can enjoy our success today, we know the changeable nature of real estate markets will bring periods that will be volatile and uncertain.

Melcor's strong results are a function of and are attributable to four primary factors. First, the Alberta economy, in which the Company operates has been extremely buoyant and led the country in economic growth over the past few years. We acknowledge that we are fortunate to carry out most of our development activities in such a favorable business environment. The second factor attributing to the Company's success relates to our strategic positioning to conduct development initiatives and continued emphasis on acquisitions in the major centres of Alberta. This concentration of company activities and reinvestment shows our confidence in the current markets and future of the Province. The third factor for our success is based on the outstanding commitment and results delivered by Melcor's capable and proven team of employees. Finally, the Central Bank's policy of reducing interest rates appears to have simulated the economy and specifically, the residential housing markets across the country.

The Community Development Division, the dominant sector of the Company, recorded sales of $73,778,000 in 2001 versus $56,554,000 in the prior year. Sales revenues included the sale of 1,214 residential lots and 44 acres of commercial and multi-family sites. Earnings for the Community Development Division were $27,241,000 compared with $19,639,000 in the previous year. Residential lot sales were strong and spread throughout the Province with our Edmonton and Red Deer regions recording the greatest increases in activity. Many new phases of development were brought to market in the Company's established communities where our committed builder customers acquired lots to meet strong demand from house buyers. The Company expanded its Edmonton market by commencing development in the attractive Oakmont Community in the City of St. Albert.

It is an objective of the Company to ensure that adequate replacement lands are acquired to replenish land inventories needed for future development and to sustain earnings. In this regard, the past year was an active one with the acquisition of 122 acres in the Calgary region, 100 acres in Edmonton and 37 acres in Red Deer. Negotiations are continuing on other significant acquisitions in Edmonton and Calgary that will be reported to shareholders in 2002.

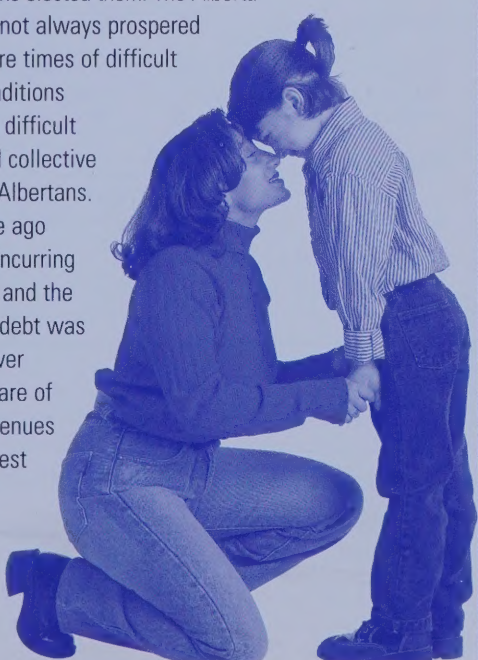
There has been a significant increase in capital assets over the past year that relate to the acquisition and development of commercial properties in the Company's Investment Property Division. The size of the Division's portfolio of income producing properties has increased to approximately 643,000 square feet of rentable space. The majority of these properties are located in the Edmonton market. Based on the trend of higher occupancy and lease rates, prospects for increased contribution from this Division appear promising. The Watergrove Manufactured Home Community located in Calgary and comprising of 308 units, continues to operate at capacity and provides steadily increasing earnings.

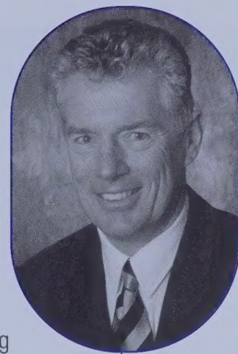
The Property Development Division commenced construction of a 68,000 square foot retail and office project in northwest Calgary. This property, referred to as Crowfoot Business Centre, will be the new home of Melcor's Calgary operation when completed in May. Based on strong leasing interest for tenancy in this building, it is anticipated that it will be substantially leased out by year end.

The Lewis Estates and The Links In Spruce Grove golf courses also continue to operate satisfactorily and have continued to increase their contributions to earnings.

Shareholders received dividends totaling $.90 per share in 2001 compared with $.80 per share in 2000. The Board of Directors believes it is important to provide reasonable dividends to shareholders, and at the same time, ensure the Company has adequate finances for company operations and acquisitions.

On reflection of our success over the past few years, we believe it is appropriate to acknowledge the significance of the favorable and progressive Alberta business environment which we are so fortunate to be a part of. The "Alberta Advantage", which has been referred to in previous Reports to Shareholders, includes abundant natural resources, a hard working, skilled and resourceful population, low taxes and a responsible government that has delivered on promises on which Albertans elected them. The Alberta economy has not always prospered and there were times of difficult economic conditions necessitating difficult decisions and collective sacrifices by Albertans. Just a decade ago Alberta was incurring large deficits and the accumulated debt was stealing an ever increasing share of Provincial revenues to cover interest costs. The Provincial Government, lead by Premier Ralph Klein, was true to its promise, and, in response to the majority wishes, undertook the task to get its fiscal house in order. Over the past few years the Provincial government has paid down debt resulting in reduced interest costs thereby providing options to increase government spending and cut taxes.





Timothy C. Melton

In our view this prudent and responsible government is the most important of all of the "Alberta Advantages". People and business are migrating to Alberta at a high rate because of the good business environment, low taxes and a quality of life that is the best in the country. We extend our thanks to our Provincial Government for the leadership and efforts in laying the foundation for a business climate that has provided Albertans with prosperity and opportunity. Our company has been privileged to participate and is proud of its contribution.

Ralph B. Young

The future outlook for Melcor continues to be one of cautious optimism. The energy sector is an integral part of the Alberta economy and lower prices for oil and natural gas will tend to negatively affect growth. Fortunately, this Province has developed a diversified business base and continues to attract new business. Also, current low interest rates are a very positive catalyst in stimulating real estate markets.

We thank our customers, suppliers, partners, lenders and our dedicated directors and personnel for their continued support and expertise which are essential to our success.

T.C. Melton

R.B. Young

March 5, 2002

Management's Discussion and Analysis

Corporate Overview

Melcor Developments Ltd. "Melcor", which traces its history back to 1923, has been a public company since 1968. It operates in Alberta in the metropolitan areas of Calgary, Edmonton, Lethbridge, Red Deer and in Arizona. Its diversified operations include:

- the acquisition of raw land, which is held for future development until market conditions warrant the planning, servicing and marketing of urban communities which is then sold in the form of single family, multiple family and commercial / industrial lots;
- the development of income producing properties in Alberta;
- the ownership, development and management of commercial property in Western Canada including a manufactured home community in Calgary; and
- the ownership and management of two championship golf courses in the Edmonton area.

Review of Operating Results

Net earnings for the year were $15,971,000 compared to prior year earnings of $10,630,000. Basic earnings per common share at December 31, 2001 were $5.26, a 51% increase over 2000 earnings per share of $3.48. This represents the highest earnings per share for the Company in its history as a public company. Fourth quarter basic earnings per common share of $2.40 per share was also a record high.

The increase in revenue and net earnings was the result of an increase in land sales. Single-family housing starts in the municipalities in Alberta where Melcor operates, increased by 15% during the current year.

Community Development

The Community Development Division is responsible for the acquisition, planning, development and marketing of urban communities. Although the division predominantly develops mixed-use residential communities, it also develops large-scale commercial and industrial centres in the Edmonton and Calgary regions. Residential lots and parcels are marketed through selected homebuilders that purchase sites through agreements payable that are usually due within one year of sale.

Sales Activity

Total sales for the division were $73,778,000 in 2001 versus $56,554,000 in the prior year. During the year, twenty-five subdivisions were developed in fourteen communities. The number of residential lots sold in 2001 increased by 26% over 2000 sales. Edmonton, Calgary and Red Deer regions saw an increase in the number of lots sold, while only Lethbridge experienced a noticeable decrease (as set out in the following table).

Residential lot sale history
(including joint ventures at 100%)

	2001	2000	1999	1998	1997
Edmonton	**437**	348	260	384	306
Red Deer	**268**	123	162	209	160
Calgary	**459**	421	310	379	373
Lethbridge	**48**	64	74	44	27
Arizona	**2**	3	7	1	40
	1,214	959	813	1,017	906

Residential lot inventory
(including joint ventures at 100%)

	2001	2000
At beginning of the year	**1,012**	867
New developments	**1,061**	1,104
Sales	**(1,214)**	(959)
At end of the year	**859**	1,012

Multi-family and commercial sales
(including prorata joint venture interests and intersegment transactions)

	Multi-family and Commercial Acres	Multi-family and Commercial Sales ($)	Sale of Non-Strategic Lands (Acres)
2001	**44**	**16,653,000**	**152**
2000	33	9,719,000	3
1999	33	7,341,000	29
1998	26	8,845,000	–
1997	17	7,142,000	33

Land inventory (in acres)	**2001**	2000
At beginning of the year	**4,403**	4,516
Purchases	**259**	140
Sales	**(152)**	(3)
Developed	**(220)**	(250)
At end of the year	**4,290**	4,403

Land Acquisitions

The acquisition of land for future development is based upon our anticipation of market demand and development potential primarily within five years. Land purchases during the year were:

122 Acres in Calgary Region
100 Acres in Edmonton Region
37 Acres in Red Deer Region

Risk Factors

Residential lot sales are influenced by the demand for new housing which is impacted by interest rates, growth in employment, immigration, new family units and the size of these units. Our ability to bring new communities to the market is impacted by municipal regulatory requirements and environmental considerations which effect the planning, subdivision and use of land. The lengthy planning and approval process can take up to eighteen months. During this period, the market conditions in general and / or the market for lots in the size and price range in our developments, may change dramatically.

Management attempts to mitigate these risks by:

- developing in the vicinity of major population and employment centres in Alberta where we have developed land for decades;
- marketing lots in various sizes and price ranges in all regions in which we carry on development programs;
- monitoring market conditions by maintaining close contacts with our customers, industry associations and forecasting agencies;
- managing and participating in Joint Ventures;
- contracting professional consultants as required rather than having them on staff; and
- practicing a strong environmental program to minimize risk on acquisitions and development.

Property Development

During the year, the Company became active in property development whereby sites are acquired from other divisions at fair market value with the goal of creating additional value by developing the sites into revenue producing properties. Once completed (75% leased) they are transferred to the Investment Property Division who will hold and manage the asset.

The current year activities included the completion of Corinthia Plaza in Leduc, by renovating an 11,871 sq. ft. strip-mall and adding 11,312 sq. ft. of new retail space. This project was 76% leased and occupied as of December 31, 2001. Management has transferred this property to the Investment Property Division as at December 31, 2001 and is in process of placing financing on it.

During the year, construction was commenced on a 2.8 acre site in northwest Calgary. The building, known as Crowfoot Centre, has approximately 19,000 sq. ft. of retail space and 49,000 sq. ft. of office. The construction is primarily completed and tenants are beginning to occupy space. Management expects to be 75% leased and occupied by the third quarter and will place long term financing on the building at that time.

The division is evaluating development of several new sites in areas including Spruce Grove, Leduc, Calgary and Chestermere.

Risk Factors

This division is subject to risks that would normally be associated with the construction industry combined with the normal leasing risks that the Company faces in the Investment Property Division. The Company has to manage the overall costs of the project, the quality of the construction and the suitability of the project in relation to the needs of the tenants who will occupy the completed building. The Company is also subject to additional holding costs if the asset is not leased out on a timely basis.

Management attempts to mitigate these risks by:

- hiring professional consulting firms to aid in the planning and design of the project;
- developing in the vicinity of major population and employment centres where the Company conducts business and owns similar assets;
- using professional consultants and realtors to market the new projects;
- contracting reputable construction companies;
- analysing market conditions and evaluating potential customers; and
- constantly monitoring leasing activity and construction progress.

Investment Property

The Company owns and manages a portfolio of 13 commercial properties and a 308-unit manufactured home community. See page 23 of this annual report for a detailed listing of investment property. Divisional earnings were:

$	**2001**	2000
Rental and other operations	**714,000**	159,000
Loss on sale of undeveloped site	**(504,000)**	–
Gain on sale of building	–	464,000
Total divisional earnings	**210,000**	623,000

The increase in earnings from rental operations is due to the expansion of the portfolio and improving market conditions. The program to perform some major repairs and renovations to several properties in the portfolio continued during 2001 and is expected to be ongoing through to the end of 2004.

The loss on the sale of an undeveloped site was the result of unforeseen environmental clean-up costs of approximately $800,000 which was made necessary by changes to Alberta's environmental legislation subsequent to the Company's original acquisition more than 25 years ago.

During the prior year the Company sold a 20,520 sq. ft. multi-use building and recorded a gain of $464,000.

Property summary
(in square feet / including joint ventures at 100%)

	2001	2000
Office and multi-use	**578,529**	483,961
Retail	**64,377**	53,065
	642,906	537,026

On April 30, 2001, the Company acquired a 32,000 sq. ft. office/retail building known as the Birks Building with historic significance in the downtown core of Edmonton.

On June 30, 2001, the Company acquired the Westgate Business Centre, which is located in the west end of Edmonton. This 63,871 sq. ft. suburban office complex, which was built in the 1980's, is composed of nine – one-story buildings and is 98% leased.

(000's)	**2001**	2000	1999	1998	1997
Rental revenue	**6,175**	4,857	4,123	3,829	3,823
EBITDA (1)	**2,206**	1,562	1,868	2,051	2,020
Earnings from properties (2)	**892**	620	473	627	505
EBITDA as % of NBV (3)	**9.4%**	7.1%	10.3%	11.7%	11.4%

(1) EBITDA is earnings before interest, income tax, depreciation and amortization.

(2) Earnings from properties are earnings before general and administrative expenses.

(3) Note 4 to the consolidated financial statements sets out the net book value of the properties owned. The denominator is adjusted for properties under construction.

Rental revenue is up by 27% and earnings from properties are up 44%. EBITDA as a percent of net book value is up due to the prior year having some one-time expenditures.

The occupancy rate for office and multi-use buildings increased from 80% in 2000 to 85% in 2001.

Management believes that it will increase the occupancy rate for 2002.

Leases maturing (in square feet)

	2006	2005	2004	2003	2002
Office and Multi-use	23,860	56,996	30,021	88,268	105,843
Retail	12,813	11,133	8,581	36,448	33,473
	36,673	68,129	38,602	124,716	139,316

Risk Factors

The Investment Property Division is subject to the market conditions in the geographic areas where it owns properties. As these market conditions improve, the ability to achieve higher occupancy rates also improves. These market conditions are influenced by outside factors such as government policies, demographics and employment patterns, the affordability of rental properties, competitive leasing rates and long-term interest and inflation rates.

Management attempts to mitigate these risks by:

- owning properties in the vicinity of major populations and employment centres, (normally in areas where we also develop lands for resale);
- diversifying the type of investment properties we own;
- managing and participating in Joint Ventures;
- purchasing properties that have low capital costs, thereby allowing the division to obtain a reasonable return even in a competitive market;
- obtaining long-term, fixed-rate financing when the features of the specific property meet those conditions; and
- managing our buildings so as to have competitive operating costs.

Golf Courses

The Company manages two 18 hole golf courses including The Links at Spruce Grove and Lewis Estates Golf Course. Both golf courses had successful years. Overall revenue increased by 3% and earnings increased by 14%.

Note 4 to the consolidated financial statement sets out our net investment in the golf courses.

Risk Factors

Golf courses are subject to weather number of playing days, competition from other courses, the amount of disposable income available to customers to spend on recreational activity, popularity of the sport and the cost of providing desirable playing conditions of the course.

Management attempts to mitigate these risks by:

- owning golf courses near high population areas;
- keeping green fees competitive, yet charging adequately to maintain a high standard of course conditions;
- servicing the company golf tournament business, which increases the number of sold out days and provides revenue on marginal weather days;
- building good practice facilities at the courses and by providing excellent professional golf instructions at the course; and
- practicing efficient, courteous and professional customer relations to encourage patrons to return.

Assets

The net book value of the Company's assets were $177,218,000 at the end of 2001, compared to $158,786,000 at the end of 2000. Note references below are to the consolidated financial statements.

- Agreements receivable (Note 2) are the balances due from the sale of developed land. The increase in agreements receivable of $8,777,000 (2001-$43,704,000 versus 2000 - $34,927,000) is primarily a reflection of increased land sales during the year.
- Land is classified as land under development at the time that plan registration has been completed. In 2001, the Company developed twenty-five new residential subdivisions with 1,061 lots compared with twenty-five new subdivisions with 1,104 lots in 2000. The decrease in land under development by $8,238,000 (2001 - $35,558,000 versus 2000 – $43,796,000) is a reflection of the single lot inventory which decreased from 1,012 lots at December 31, 2000 to 859 lots at December 31, 2001. During the same period, the inventory of multi-family/commercial sites decreased from 60 acres to 56 acres.

- Land held for future development (Note 3) is an aggregate of raw land which, in some cases, may be several years from development and unregistered projects and their related predevelopment costs. Predevelopment costs include, but are not limited to, regulatory approvals, planning, engineering and infrastructure servicing. The latter can be significant in instances where utilities or roadways must be constructed over expanses of raw land in order to bring services or access to subdivisions that are being fully developed. Land held for future development increased by $4,857,000 due to land acquisitions of $7,443,000, which were offset by transfers to land under development of $4,075,000 in land and a net increase of predevelopment costs of $1,489,000.

- Capital assets (Note 4) includes the assets of the Investment Property Division (13 commercial properties and a manufactured home community), the assets of the Property Development Division (i.e. Crowfoot Centre which is under development), the assets of the Recreation Property Division (two golf courses in the Edmonton area) and the sundry capital assets of the other divisions. During the year, capital assets increased by $11,118,000 due primarily to the acquisition of two properties in Edmonton and construction costs relating to Corinthia Plaza and Crowfoot Centre.

Liabilities

Liabilities increased from $65,901,000 at the end of 2000 to $70,500,000 at the end of 2001 primarily due to increased borrowing activity. The major changes in liabilities include:

- Provision for land development costs is the unexpended portion of the cost required to complete a registered subdivision plan to service any given phase of development. The gross costs are recorded in land under development and are charged to cost of sales when the inventory is sold. The provision for land development costs can vary depending upon the timing of cash payments required to complete construction, the timing of construction work, the timing of new projects and the amount of construction work carried forward into the new year. The provision for land development costs decreased by $4,216,000 during the year because of a combination of the above factors.

- Debt on land held for future development (Note 7) increased by $1,253,000 based on new debt of $3,963,000 on land purchased during the year less repayments of $2,710,000.

- Debt on Capital assets in the amount of $16,599,000 (Note 8) reflects financing placed on capital assets (Note 4), which have a net book value of $20,208,000. The increase in debt of $4,418,000 is a result of the company placing new financing on 5 properties generating net loan proceeds of $5,415,000 (new loans of $10,200,000 less prior loan balances of $4,785,000) less principal repayments of $997,000.

Risk

The nature of the Company's business, along with 94% of our assets being located in Alberta, could make the Company subject to greater risks than companies that are more geographically diversified.

Various factors which are not in management's control can impact the Company's business. These factors include:

- interest and inflation rates;
- general economic conditions in the regions which the Company operates;
- population growth and migration;
- job creation and employment patterns;
- consumer confidence;
- pricing of input costs;
- competitors strategies;
- government policies, regulations and taxation; and
- availability of financing for real estate assets.

Management believes that the economic outlook for Alberta is favourable and should continue as long as provincial and municipal governments practice fiscal policies that fuel migration into the economically strong Province of Alberta. The Company intends to continue its conservative policies on acquisitions and developments.

Liquidity and Capital Resources

The Company has an ongoing requirement for capital to finance its operations. During the prior year, the Company finalized an agreement with a major chartered bank, which replaced conventional project financing with a $35,300,000 credit facility. Specific agreements receivable, specific lot inventory and a general security agreement are pledged as collateral for this credit facility. This credit facility may be terminated by the bank upon one year's notice. The facility limits can be modified to meet the Company's needs. The Company also has a credit facility to provide letters of credit.

At December 31, 2001 the Company had $13,100,000 (2000 – $10,800,000) in approved and undrawn facilities to cover its operations. Based on the consolidated assets and liabilities at December 31, 2001 (assuming loan limits were increased and existing loan rules were used), the Company has the potential to increase its credit facility to approximately $55,000,000 including letters of credit. Since loan rules attract a monthly standby fee from the bank for loans approved but not used, the Company limits the credit amount to include only the amount it could require based on annual budget information and maximum cash requirements.

Financing opportunities for the Company's capital assets continue to be reviewed.

The Company's debt to equity ratio was 0.66:1 at December 31, 2001 compared to 0.71:1 at December 31, 2000.

Management believes that with the projected level of operations for 2002, our minimal capital commitments and the availability of funds under the established credit facility, the Company will have sufficient capital to fund its operations.

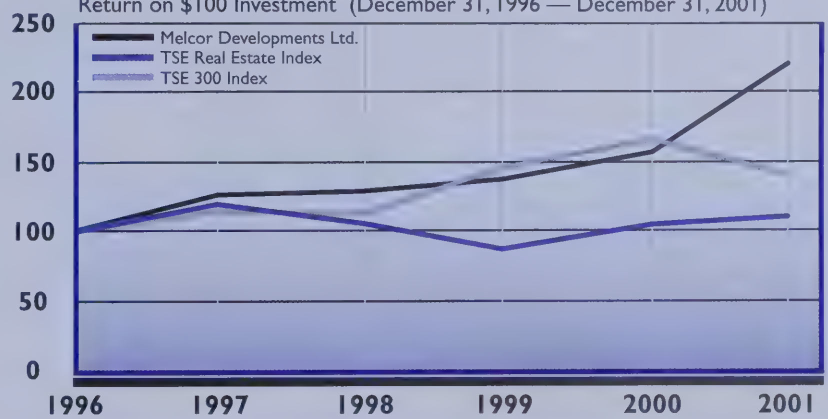
Assumptions for 2002

The Company's Business Plan for 2002 is based upon the following assumptions:

- the Canadian economy will be slightly slower in 2002 compared to the level of economic activity achieved in 2001, with economic growth in Alberta to be higher than the national average;
- the population of Alberta will continue to increase;
- interest rates will increase marginally during the year as economic conditions improve; and
- the residential housing starts in Alberta will be about the same as in 2001, with Edmonton continuing to show strength in its growth rate of housing starts with Calgary and Red Deer holding steady.

The following chart illustrates Melcor's five-year cumulative total shareholder return, assuming an initial investment of $100 with all dividends reinvested versus the return on the T.S.E. 300 Composite Index and the T.S.E. Real Estate Index.

Performance Chart — Five Year Cumulative Total
Return on $100 Investment (December 31, 1996 — December 31, 2001)



	1996	1997	1998	1999	2000	2001
Melcor Developments	$100	$125	$131	$140	$151	$222
T.S.E. 300 Index	$100	$115	$113	$149	$160	$140
T.S.E. Real Estate Index	$100	$120	$104	$ 89	$102	$117

Consolidated Statements of Earnings and Retained Earnings

For the years ended December 31 ($000's)	**2001**	2000
Revenue	**82,607**	61,221
Cost of sales	**(50,612)**	(37,196)
	31,995	24,025
Interest income	**1,416**	1,149
Interest expense (Note 12)	**(1,765)**	(1,538)
General and administrative expenses	**(6,838)**	(5,822)
Gain on sale of capital assets	**34**	479
Earnings before income taxes	**24,842**	18,293
Income tax (expense)/recovery		
Current	**(8,203)**	(7,418)
Future	**(668)**	(245)
	(8,871)	(7,663)
Net earnings for the year	**15,971**	10,630
Retained earnings, beginning of the year	**85,099**	77,925
Dividends	**(2,738)**	(2,428)
Cost of common shares purchased in excess of stated capital	**(7)**	(1,028)
Retained earnings, end of the year	**98,325**	85,099
Basic earnings per common share	**5.26**	3.48
Diluted earnings per common share	**5.21**	3.48

Consolidated Balance Sheets

As at December 31 ($000's)	**2001**	2000
ASSETS		
Cash and cash equivalents	**1,325**	1,181
Accounts receivable	**2,912**	1,980
Agreements receivable (Note 2)	**43,704**	34,927
Land under development	**35,558**	43,796
Land held for future development (Note 3)	**53,097**	48,240
Capital assets (Note 4)	**37,508**	26,390
Other assets	**3,114**	2,272
	177,218	158,786
LIABILITIES		
Bank operating loan (Note 5)	**11,929**	14,088
Accounts payable and accrued liabilities	**11,116**	7,443
Provision for land development costs	**6,371**	10,587
Debt on land under development (Note 6)	**1,348**	386
Debt on land held for future development (Note 7)	**11,627**	10,374
Debt on capital assets (Note 8)	**16,599**	12,181
Future income taxes (Note 9)	**11,510**	10,842
	70,500	65,901
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	**6,705**	6,571
Retained earnings	**98,325**	85,099
Currency translation adjustment	**1,688**	1,215
	106,718	92,885
	177,218	158,786

SIGNED ON BEHALF OF THE BOARD

PER: T.C. Melton ____ Director

PER: R.B. Young ____ Director

Consolidated Statements of Cash Flows

For the years ended December 31 ($000's)	2001	2000
Cash flows from/(used in) operating activities		
Net earnings for the year	**15,971**	10,630
Non cash items:		
Depreciation and amortization	**832**	748
Gain on sale of capital assets	**(34)**	(479)
Future income tax	**668**	245
	17,437	11,144
Agreements receivable	**(8,777)**	(4,353)
Development activities (Note 17)	**6,609**	(17)
Operating assets and liabilities (Note 17)	**1,900**	(775)
Currency translation adjustment	**473**	275
	17,642	6,274
Cash flows from/(used in) investing activities		
Purchase of land held for future development	**(3,481)**	(1,534)
Proceeds from sale of capital assets	**57**	1,389
Capital assets additions	**(11,974)**	(2,874)
	(15,398)	(3,019)
Cash flows from/(used in) financing activities		
Bank operating loan advances	**(2,159)**	14,092
Project loan advances	**1,820**	796
Project loan repayments	**(858)**	(14,233)
Repayment of debt on land held for future development	**(2,710)**	(5,189)
Debt advanced on capital assets	**5,415**	–
Repayment of debt on capital assets	**(997)**	(2,347)
Dividends	**(2,738)**	(2,428)
Share capital issued	**135**	–
Common shares purchased	**(8)**	(1,169)
	(2,100)	(10,478)
Increase/(decrease) in cash and cash equivalents during the year	**144**	(7,223)
Cash and cash equivalents, beginning of the year	**1,181**	8,404
Cash and cash equivalents, end of the year	**1,325**	1,181

Notes to Consolidated Financial Statements

1. ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgement. Significant areas requiring the use of management estimates relate to the determination of provision for land development costs and potential impairment of assets. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

a) Basis of consolidation

These consolidated financial statements include:

(i) The accounts of Melcor Developments Ltd. and its wholly-owned subsidiary companies (the "Company"):
Melcor Developments Arizona, Inc.
Stanley Investments Inc.

(ii) Investments in eight (8) joint ventures are accounted for using the proportionate consolidation method.

b) Recognition of revenue

Revenue is recognized as follows:

(i) Sale of land - when a minimum of 15% of the sale price has been received and the sale is unconditional.

(ii) Rental of commercial properties - after the property is initially constructed or acquired and has reached a 75% level of occupancy, subject to a reasonable period dependent upon the size of the project. Prior to achieving this level, rental revenue and operating costs are capitalized as part of the cost of the project.

c) Capitalization of costs

The Company capitalizes all direct costs relating to land held for future development and land under development projects. In addition, carrying costs such as interest on debt specifically related to the project, property taxes and interest on general debt considered applicable to the investment in the project are capitalized. Where the net realizable values of specific properties held for development do not exceed their capitalized carrying value, any additional interest and carrying costs relating to the properties are charged to current operations and are not capitalized. Administrative overhead expenses are not capitalized.

d) Cash and cash equivalents

Cash and cash equivalents are comprised primarily of cash and short-term securities with maturity dates of less than nine months from the date they were acquired. These items are carried at cost or amortized cost as appropriate.

e) Land under development

(i) Land under development is recorded at the lower of cost and net realizable value.

(ii) The total estimated carrying, servicing and development costs (net of recoveries) are recorded as a liability at the time that plan registration has been completed. The unexpended portion of these costs is shown as "Provision for land development costs" on the balance sheet. Whenever the estimate is known to be materially different from the actual costs incurred, an adjustment is made to the liability with a corresponding adjustment to cost of sales and land under development.

(iii) The total costs of a project are allocated to individual lots sold on the basis of the anticipated selling price at the date of plan registration.

f) Land held for future development

Land held for future development includes the undeveloped land cost, the capitalized carrying costs related to holding the land and those development costs (net of recoveries) that have been incurred prior to the land being transferred to land under development. Land held for future development is recorded at the lower of cost and net realizable value. The cost of land and carrying costs are transferred to land under development on a prorated acreage basis to each phase of a project at the time that plan registration has been completed.

g) Capital assets

Capital assets are depreciated using the declining balance method of depreciation, over their estimated useful life, at rates from 4% to 30%. Buildings are depreciated using the sinking fund method based upon an estimated useful life of 20 to 45 years and are recorded at the lower of cost less accumulated depreciation and net recoverable amount.

h) Income taxes

Future income taxes are recognized at appropriate rates of tax for the future income tax consequences attributable to differences between the carrying values of assets and liabilities and their respective income tax bases (referred to as the liability method of accounting).

i) Foreign currency translation

The Company's foreign operation is of a self-sustaining nature. Assets and liabilities of the foreign operation are translated at the exchange rates in effect at the balance sheet date and revenues and expenses are translated at average exchange rates for the year. Gains or losses on translation are shown as a separate component of shareholders' equity.

j) Per share amounts

Effective January 1, 2001, the Company adopted the treasury stock method for calculation of diluted earnings per share under which deemed proceeds of the exercise of options are considered to be used to reacquire common shares at an average share price. The Company has adopted this calculation retroactively. However, there was no impact on diluted earnings per common share for 2000 because the stock option plan was not approved by shareholders until May 17, 2001.

k) Stock option plan

The Company does not recognize compensation expense on the stock option plan which grants options to all full-time employees upon completion of one year term of service.

2. AGREEMENTS RECEIVABLE

Agreements receivable are due within one year except for $3,981,000 (2000 – $13,013,000) which is due in 2003. Subsequent to the interest adjustment date, which provides an interest relief period of four months to registered builders, these receivables earn interest at prime plus one percent (5.0% at December 31, 2001 and 8.5% at December 31, 2000) and are secured by the specific real estate sold. Agreements receivable relate primarily to land sales in Alberta which are subject to the related economic conditions of that region.

3. LAND HELD FOR FUTURE DEVELOPMENT

($000's)	**2001**	2000
Land and carrying costs	**46,149**	42,781
Pre development costs	**6,948**	5,459
	53,097	48,240

During the year the Company purchased land in the amount of $7,443,000 (2000 – $4,969,000) and received vendor financing in the amount of $3,963,000 (2000 – $3,435,000).

4. CAPITAL ASSETS

($000's)			**2001**			2000
	Cost	**Accum. Depn.**	**Net Book Value**	Cost	Accum. Depn.	Net Book Value
Commercial properties	**35,119**	**(3,931)**	**31,188**	23,629	(3,501)	20,128
Manufactured home community and related assets	**3,351**	**(256)**	**3,095**	3,348	(211)	3,137
Golf courses and related assets	**5,343**	**(2,416)**	**2,927**	5,059	(2,226)	2,833
Other buildings and equipment	**31**	**(12)**	**19**	38	(16)	22
Computerware and furniture	**881**	**(602)**	**279**	1,080	(810)	270
	44,725	**(7,217)**	**37,508**	33,154	(6,764)	26,390

5. BANK OPERATING LOAN

The Company has a $35,300,000 credit facility which replaced conventional project financing. Specific agreements receivable, specific lot inventory and a general security agreement are pledged as collateral for the credit facility. This credit facility may be terminated by the bank upon one year's notice. Interest is paid monthly at prime plus 1% (5.0% at December 31, 2001 and 8.5% at December 31, 2000).

6. DEBT ON LAND UNDER DEVELOPMENT

Debt on land under development consists of project loans at prime plus 1% (5.0% at December 31, 2001 and 8.5% at December 31, 2000) which mature in 2003. Specific real estate, promissory notes, insurance proceeds, a general assignment of agreements receivable and specific development agreements have been pledged as collateral for this debt.

7. DEBT ON LAND HELD FOR FUTURE DEVELOPMENT

($000's)	2001	2000
Agreements payable with interest at the following rates:		
Fixed rates of 4% to 7%	**10,222**	8,674
Variable rate of prime plus 1.5% (5.5% at Dec. 31, 2001 and 9% at Dec. 31, 2000)	**1,206**	1,485
	11,428	10,159
Accrued interest	**199**	215
	11,627	10,374

Specific land held for future development with a book value of $23,595,000 (2000 – $17,359,000) has been pledged as collateral for the above debt. The weighted average interest rate, based on year end balances, is 5.9% (2000 – 6.9%).

The agreements mature in 2002 to 2009 and the minimum principal payments due within each of the next five years are:
2002 – $3,670,000; 2003 – $2,773,000; 2004 – $1,874,000; 2005 – $1,760,000; and 2006 – $410,000.

8. DEBT ON CAPITAL ASSETS

($000's)	2001	2000
Mortgages amortized over 15 to 20 years at rates varying from prime plus .75% to prime plus 1% (4.75% - 5% at Dec. 31, 2001 and 8.5% - 9% at Dec. 31, 2000)	**3,319**	3,891
Mortgages amortized over 15 to 25 years at fixed rates varying from 5.82% to 10.375%	**13,280**	8,290
	16,599	12,181

Specific capital assets with a net book value of $20,208,000 (2000 - $19,619,000), assignment of applicable rents and insurance proceeds have been pledged as collateral for the above debt. The weighted average interest rate at December 31, 2001, based on year end balances, is 6.5% (2000 – 8.3%).

Principal payments due within each of the next five years, assuming renewal at similar terms, are:
2002 – $887,000; 2003 – $949,000; 2004 – $1,011,000; 2005 – $1,076,000; and 2006 – $1,146,000.

9. FUTURE INCOME TAXES

($000's)	**2001**	2000
Capital asset book values in excess of tax values	**2,981**	3,099
Reserve on mortgages due in subsequent years	**6,116**	5,692
Interest and other costs deducted for tax purposes	**1,109**	936
Tenant leasing costs	**956**	568
Other	**348**	547
	11,510	10,842

The timing of payment of future income taxes is dependent upon the timing of development and sale of the related assets and on the timing of the receipt of cash relating to agreements receivable. Income taxes paid during the year were $7,176,000 (2000 – $6,784,000). Income tax expense is calculated as follows:

($000's)	**2001**	2000
Income tax at statutory rate	**10,434**	8,162
Increase/(decrease) resulting from:		
Benefit recorded for substantially enacted future tax rate reductions	**(1,030)**	(398)
Non deductible expenses and other	**(533)**	(123)
Large corporations tax	–	22
Income tax expense	**8,871**	7,663

10. SHARE CAPITAL

(a) Common Shares

	2001		2000	
	Number of Shares Issued	**Amount ($000's)**	Number of Shares Issued	Amount ($000's)
Common shares, beginning of the year	**3,038,903**	**6,571**	3,104,303	6,712
Share options exercised	**7,220**	**135**	–	–
Shares purchased and cancelled	**(400)**	**(1)**	(65,400)	(141)
Common shares, end of the year	**3,045,723**	**6,705**	3,038,903	6,571

Authorized:	
Common shares	10,000,000
First Preferred Shares, non-voting, issued in series	5,000,000

During the year, the Company purchased shares at an average price of $20.00 (2000 – $17.87) per share for total consideration of $8,000 (2000 – $1,169,000) pursuant to the Normal Course Issuer Bid Circular. The current bid allows the Company to purchase an additional 151,925 shares prior to the expiry of the bid on September 14, 2002.

(b) Stock Option Plan

On September 28, 2000 the Company's Board of Directors approved a stock option plan ("the Plan"). Under the Plan, the Company may grant options to full-time salaried employees and designated contractors after one year of service. The plan requires that the option price equals or exceeds the market price of the common stock as per Toronto Stock Exchange regulations. The options vest at 20% per year and expire seven (7) years from the date of issuance and may be exercised into common shares on a one-for-one basis. The Plan was approved by the Company's shareholders at the Shareholder's Annual Meeting in May 2001.

(c) Options Available for Granting

	2001	2000
Options available, beginning of the year	**143,500**	–
Options made available under the Plan	–	300,000
Options granted	**(15,500)**	(156,500)
Options forfeited	**2,400**	–
Options available, end of the year	**130,400**	143,500

(d) Options Outstanding Under the Plan

	2001		2000	
	# of options	**Weighted average option price**	# of Options	Weighted average option price
Options outstanding, beginning of the year	**156,500**	**18.73**	–	–
Options granted	**15,500**	**24.28**	156,500	18.73
Options exercised	**(7,220)**	**18.73**	–	–
Options forfeited	**(2,400)**	**21.04**	–	–
Options outstanding, end of the year	**162,380**	**19.23**	156,500	18.73

The following table summarizes information about options outstanding at December 31, 2001.

Option Expiry Date	Outstanding Options (#)	Option Price Per Share ($)	Exercisable at December 31, 2001
September 28, 2007	147,880	18.73	24,100
July 26, 2008	14,500	24.28	–
	162,380		24,100

11. PER SHARE AMOUNTS

Basic net earnings per common share is calculated by dividing net earnings applicable to common shares by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is calculated to give effect to share options.

	2001	2000
Basic weighted average common shares outstanding during the year	**3,039,101**	3,058,292
Exercise of options	**26,818**	–
Diluted weighted average common shares	**3,065,919**	3,058,292
Basic earnings per common share calculation:		
Earnings per consolidated statements	**15,971,000**	10,630,000
Basic weighted average common shares	**3,039,101**	3,058,292
Basic earnings per common share	**5.26**	3.48
Diluted earnings per common share calculation:		
Earnings per consolidated statements	**15,971,000**	10,630,000
Diluted weighted average common shares	**3,065,919**	3,058,292
Diluted earnings per common share	**5.21**	3.48

Weighted average common shares was calculated based on the date the stock option plan was approved by the shareholders, May 17, 2001.

12. INTEREST EXPENSE

($000's)	2001	2000
Interest on bank operating loan and other indebtedness	**435**	323
Interest on debt – land	**952**	1,094
Interest on debt – capital assets	**1,082**	1,103
	2,469	2,520
Less interest on land debt capitalized	**(704)**	(982)
	1,765	1,538

Cumulative interest capitalized at the end of the year is $4,600,000 (2000 – $4,831,000). Interest paid during the year was $2,448,000 (2000 – $2,645,000).

13. INTEREST RATE RISK

The Company's debt consists of loans that are subject to interest rate fluctuations. For each 1% change in the rate of interest on loans subject to floating rates, the change in annual interest expense is approximately $178,000 (2000 - $199,000) based upon year end debt balances. This amount is partially offset by the interest earned on agreements receivable which is also subject to interest rate fluctuations.

14. JOINT VENTURES

					CASH FLOWS FROM/(USED IN)		
($000's)	Assets	Liabilities	Revenue	Expenses	Operating Activities	Investing Activities	Financing Activities
2001	**33,467**	**17,522**	**15,507**	**11,110**	**2,748**	**(719)**	**1,343**
2000	30,271	15,344	11,636	8,395	3,401	(22)	(2,728)

The above table includes the Company's proportionate share of the assets, liabilities, revenue, expenses and cash flow information of eight (8) joint ventures that are proportionately consolidated in these financial statements.

15. SEGMENTED INFORMATION

Since the Company is involved in several activities, the financial information supplied in aggregate terms does not provide sufficient information to enable an understanding of the contribution of each activity to the Company as a whole.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business unit requires different management skills and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on profit or loss from operations before income taxes not including foreign exchange gains or losses.

In the following schedules, earnings from operations before income tax expense has been calculated for each segment by deducting from revenues of the segment all direct costs and administrative expenses which can be specifically attributed to the segment, as this is the basis for measurement of segment performance. Common costs, which have not been allocated, are the costs of corporate debt and general corporate expenses. The allocation of these costs on an arbitrary basis to the segments would not assist in the evaluation of the segments' contributions.

Inter-segment transactions are entered into under terms and conditions similar to those with unrelated third parties. Any inter-segment sales and the unrealised profits therefrom have been eliminated.

COMMUNITY DEVELOPMENT

Land Development

This division is responsible for purchasing and developing land to be sold as residential and commercial lots.

Property Development

This division develops income properties which, when completed, are transferred to the Investment Property Division who will hold and manage the asset.

INVESTMENT/RECREATION PROPERTY

Investment Property

The Company owns 13 rental properties and a 50% interest in a 308 unit manufactured home community, which it holds to earn rental income.

Recreation Property

The Company owns and manages two 18 hole golf course operations (one of which is 60% owned).

($000's)	2001		2000	
OPERATING SEGMENTS	**Revenue**	**Earnings**	Revenue	Earnings
Community Development	**75,138**	**27,241**	57,566	19,639
Property Development	**2,600**	**242**	–	–
Investment Property	**7,293**	**210**	4,877	623
Recreation Property	**2,701**	**593**	2,630	521
Corporate interest	**118**	**118**	192	192
Inter-segment eliminations	**(3,827)**	**(365)**	(2,895)	(1,207)
	84,023	**28,039**	62,370	19,768
Interest expense		**(435)**		(324)
Common costs		**(2,762)**		(1,151)
Earnings before income taxes		**24,842**		18,293
Income tax expense		**(8,871)**		(7,663)
Net earnings for the year		**15,971**		10,630

($000's)	Depreciation and amortization		Capital expenditures		Total carrying value of identifiable assets	
	2001	2000	**2001**	2000	**2001**	2000
Community Development	**3**	2	**–**	–	**134,238**	127,504
Property Development	**–**	–	**6,968**	–	**7,938**	–
Investment Property	**475**	390	**4,525**	2,624	**30,150**	25,926
Recreation Property	**263**	258	**379**	179	**3,090**	3,039
Corporate/Common	**91**	98	**102**	71	**1,802**	2,317
	832	748	**11,974**	2,874	**177,218**	158,786

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company believes that the fair value of financial instruments approximates their carrying values. Financial instruments consists of cash and cash equivalents, accounts receivable, agreements receivable, bank operating loan, accounts payable and accrued liabilities, debt on land under development, debt on land held for future development and debt on capital assets.

17. DEFINITIONS FOR STATEMENTS OF CASH FLOWS

Development activities is defined as the net of land held for future development before purchases of land, land under development and provision for land development costs. Operating assets and liabilities is defined as the net of the changes in accounts receivable, other assets and accounts payable and accrued liabilities.

18. COMPARATIVE FIGURES

Where applicable, the comparative figures have been reclassified to conform to the current year's financial statement presentation.

Management's Responsibility for Financial Reporting

The Annual Report, including the consolidated financial statements, is the responsibility of the management of the Company. The financial statements have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants and the Canadian Institute of Public Real Estate Companies in all material respects. Financial information contained elsewhere in this Report is consistent with the information contained in the financial statements.

Management maintains a system of internal controls which provides reasonable assurance that the assets of the Company, its subsidiaries and joint ventures are safeguarded and which facilitates the preparation of relevant, timely and reliable financial information which reflects, where necessary, management's best estimates and judgements based on informed knowledge of the facts.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities and for final approval of the consolidated financial statements. The Board has appointed an Audit Committee comprising four unrelated and independent directors to approve, monitor, evaluate, advise or make recommendations on matters affecting the external audit, the financial reporting and the accounting controls, policies and practices of the Company under its terms of reference.

The Audit Committee meets at least four times per year with management and with the independent auditors to satisfy itself that they are properly discharging their responsibilities. The consolidated financial statements and the Management Discussion and Analysis have been reviewed by the Audit Committee and approved by the Board of Directors of Melcor Developments Ltd.

PricewaterhouseCoopers LLP, independent external auditors appointed by the shareholders, have examined the consolidated financial statements and have read Management's Discussion and Analysis. Their report as auditors is set forth below.

Auditors' Report

To the Shareholders of Melcor Developments Ltd.

We have audited the consolidated balance sheets of Melcor Developments Ltd. as at December 31, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Edmonton, Alberta

February 22, 2002

Land and Property Holdings

LAND INVENTORY

	Land Under Development			Land Held for Future Development
	Residential Lots	Residential Acres	Commercial / Industrial Acres	Total Acres
NORTHERN ALBERTA				
Edmonton	186	4	13	611
County of Parkland/Spruce Grove	62	–	16	1,109
Leduc	31	2	1	353
St. Albert	–	–	–	96
County of Strathcona	66	–	–	10
SOUTHERN ALBERTA				
Calgary	140	10	3	463
M.D. Rockyview/Airdrie	25	4	–	883
Chestermere	84	2	–	96
Lethbridge	63	–	–	274
CENTRAL ALBERTA				
Red Deer	200	–	–	226
ARIZONA				
Phoenix	–	–	–	5
Tucson	2	–	–	164
OPTION LANDS				
Chestermere	–	–	–	88
DECEMBER 31, 2001	859	22	33	4,378
DECEMBER 31, 2000	1,012	23	37	4,550

INVESTMENT / RECREATION PROPERTIES

Buildings	Year Acquired	Rental Area (sq. ft.)	% Leased
OFFICE AND MULTI USE			
EDMONTON, AB			
Melton Building	1973	112,900	75
Westcor Building	1978	70,835	100
Eastview Building	1994	64,173	95
Princeton Place	1999	58,585	68
Capilano Centre (*)	1999	98,271	87
Trans Alta Building	2000	47,480	84
Birks Building	2001	32,464	76
Westgate Business Centre	2001	63,871	98
CALGARY, AB			
Kensington Road Building	1980	23,850	93
REGINA, SK			
Albert Street Building	1979	6,100	66
		578,529	
RETAIL CENTRES			
LEDUC, AB			
Corinthia Park	1975	23,183	76
REGINA, SK			
University Park	1981	41,194	78
		64,377	
		642,906	

Other Properties

LAND LEASE

CALGARY, AB
One acre lot developed in 1999

MANUFACTURED HOME COMMUNITY

CALGARY, AB
Watergrove (*) (308 units / 100% leased)

SITES UNDER DEVELOPMENT

CALGARY, AB
Office or residential tower
Crowfoot Centre – (68,000 sq. ft.)

GOLF COURSES

EDMONTON, AB
The Links at Spruce Grove
Lewis Estates Golf Course (*)

Note:
(*) Joint Venture

Five Year Review

Balance Sheet ($000s)	**2001**	2000	1999	1998	1997
Assets					
Cash and cash equivalents	**1,325**	1,181	8,404	11,544	12,080
Accounts receivable	**2,912**	1,980	1,761	3,140	3,692
Agreements receivable	**43,704**	34,927	30,574	32,934	21,850
Land under development	**35,558**	43,796	37,443	35,287	25,426
Land held for future development	**53,097**	48,240	49,808	48,263	43,271
Capital assets	**37,508**	26,390	23,973	21,018	21,087
Prepaid and other assets	**3,114**	2,272	1,387	1,404	636
	177,218	158,786	153,350	153,590	128,042
Liabilities and Shareholders' Equity					
Bank operating loan	**11,929**	14,088	–	–	–
Accounts payable and accrued liabilities	**11,116**	7,443	7,109	8,937	7,634
Bank term loan	**–**	–	–	1,900	3,000
Provision for land development costs	**6,371**	10,587	9,588	12,285	5,338
Debt on land under development	**1,348**	386	13,823	12,719	6,279
Debt on land held for future development	**11,627**	10,374	12,128	12,337	7,902
Debt on capital assets	**16,599**	12,181	14,528	13,316	14,178
Future income taxes	**11,510**	10,842	10,597	11,133	10,212
Share capital	**6,705**	6,571	6,712	6,777	6,883
Retained earnings	**100,013**	86,314	78,865	74,186	66,616
	177,218	158,786	153,350	153,590	128,042

Statement of Earnings ($000s)	**2001**	2000	1999	1998	1997
Revenue	**82,607**	61,221	46,563	57,661	50,589
Cost of sales	**(50,612)**	(37,196)	(27,782)	(34,666)	(29,785)
	31,995	24,025	18,781	22,995	20,804
Interest income	**1,416**	1,149	1,658	1,337	621
Interest expense	**(1,765)**	(1,538)	(1,276)	(1,485)	(1,420)
General and administrative expenses	**(6,838)**	(5,822)	(5,069)	(5,452)	(4,655)
Gain on sale of capital assets	**34**	479	18	61	12
Earnings before income tax expense	**24,842**	18,293	14,112	17,456	15,362
Income tax expense	**(8,871)**	(7,663)	(6,345)	(7,797)	(6,860)
Net earnings for the year	**15,971**	10,630	7,767	9,659	8,502

Statistical ($)		**2001**	2000	1999	1998	1997
Earnings per share	- basic	**5.26**	3.48	2.50	3.05	2.64
Cash flow per share	- basic	**5.74**	3.64	2.58	3.55	3.54
Number of shares	- year end (000's)	**3,046**	3,039	3,104	3,134	3,183
Shareholders equity	- book value per share	**35.04**	30.57	27.57	25.83	23.09
	- total ($000s)	**106,718**	92,885	85,577	80,963	73,499
Dividends	- per share	**.90**	.80	.70	.60	0.50
Share price range		**20.00-28.50**	17.00-20.25	16.05-19.75	15.50-21.50	14.05-18.00

Segmented Operating review

($000s)	**2001**	2000	1999	1998	1997
Community Development Division					
Revenue	**73,778**	56,554	41,582	50,279	43,432
Cost of sales	**(44,746)**	(34,480)	(25,308)	(31,178)	(26,775)
	29,032	22,074	16,274	19,101	16,657
Interest revenue	**1,360**	1,012	1,289	774	347
Interest expense	**(328)**	(205)	(100)	(148)	(222)
	30,064	22,881	17,463	19,727	16,782
Administrative expenses	**(2,823)**	(3,242)	(2,812)	(2,733)	(2,610)
Earnings	**27,241**	19,639	14,651	16,994	14,172
Property Development					
Interdivisional sale	**2,600**	–	–	–	–
Cost of sale	**(2,230)**	–	–	–	–
Gross earnings	**370**	–	–	–	–
Administrative expenses	**(128)**	–	–	–	–
Earnings	**242**	–	–	–	–
Investment Property Division					
Rental operations	**6,218**	4,857	4,123	3,955	3,954
Land sales	**1,075**	–	–	1,617	2,267
Total operating revenue 19	**7,293**	4,857	4,123	5,572	6,221
Operating expenses	**(3,834)**	(2,854)	(2,065)	(1,722)	(1,364)
Interest expense	**(1,017)**	(994)	(1,077)	(1,139)	(1,242)
Cost of land sales	**(1,579)**	–	–	(1,176)	(1,576)
Total operating costs	**(6,430)**	(3,848)	(3,142)	(4,037)	(4,182)
Earnings from operations	**863**	1,009	981	1,535	2,039
Gain on sale of capital assets	**–**	464	–	–	–
	863	1,473	981	1,535	2,039
Administrative expenses	**(178)**	(460)	(161)	(218)	(157)
Depreciation expense	**(475)**	(390)	(489)	(411)	(411)
Asset valuation adjustment	**–**	–	–	–	–
	(653)	(850)	(650)	(629)	(568)
Earnings	**210**	623	331	906	1,471
Golf Courses					
Revenue	**2,701**	2,630	2,509	2,493	1,317
Operating costs	**(1,293)**	(1,280)	(1,347)	(1,274)	(783)
	1,408	1,350	1,162	1,219	534
Interest expense	**(65)**	(70)	(127)	(156)	(93)
Administrative expenses	**(518)**	(516)	(472)	(464)	(199)
Depreciation expense	**(263)**	(258)	(273)	(256)	(151)
Gain on sale of capital assets	**31**	15	–	–	–
Earnings	**593**	521	290	343	91

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Partner
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Barristers & Solicitors
Edmonton, Alberta

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Partner
Avison Young Commercial Real Estate
Calgary, Alberta

Timothy C. Melton
Executive Chairman
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Bruce Saville (2)
President
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Robert Stollery (1) (2)
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Ralph B. Young
President & Chief Executive Officer
Melcor Developments Ltd.
Edmonton, Alberta

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Executive Chairman

Ralph B. Young (3)
President and Chief Executive Officer

Michael D. Shabada (3)
Vice-President, Finance and
Chief Financial Officer

Brett A. Halford (3)
Vice-President, Administration

W. Peter Daly (3)
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Land Development Division

COMMITTEES

(1)Audit
(2)Corporate Governance & Compensation
(3)Management

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Pro / Manager

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Bryan A. Copp
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Other Information

Share Transfer Agent, CIBC Mellon Trust Company, Calgary & Toronto
Stock Exchange Listing, The Toronto Stock Exchange (Stock symbol: MRD)
Auditors, PricewaterhouseCoopers LLP, Chartered Accountants, Edmonton

Melcor 2001

Performance Measures (selected)

	1997	% change	1998	% change	1999	% change	2000	% change	2001
ASSETS ($000)	128,042		153,590		153,350		158,786		**177,218**
Average annual increase = 9.6%		20.0%		-0.2%		3.5%		11.6%	
SHAREHOLDERS' EQUITY ($000)	73,499		80,963		85,577		92,885		**106,718**
Average annual increase = 11.3%		10.2%		5.7%		8.5%		14.9%	
REVENUE ($000)	50,589		57,661		46,563		61,221		**82,607**
Average annual increase = 15.8%		14%		-19.2%		31.5%		34.9%	
GROSS MARGIN	41%		40%		40%		39%		**39%**
Five year average = 40%									
ADMIN. EXPENSES / REVENUE	7.9%		8.2%		9.1%		8.3%		**7.3%**
Five year average = 8.1%		3.6%		11.2%		-9.0%		-12.3%	
EARNINGS (EBT) ($000)	15,362		17,456		14,112		18,293		**24,842**
Average annual increase = 15%		14%		-19%		30%		36%	
BASIC EARNINGS PER SHARE ($)	2.64		3.05		2.50		3.48		**5.26**
Average annual increase = 25%		16%		-18%		40%		50%	
AVERAGE SHARE PRICE ($)	16.30		18.19		17.44		18.09		**24.79**
Average annual increase = 13%		12%		-4%		4%		37%	
DIVIDEND ($)	0.50		0.60		0.70		0.80		**0.90**
Average annual increase = 20.0%		20.0%		16.7%		14.3%		12.5%	
DIVIDEND YIELD	3.1%		3.3%		4.0%		4.4%		**3.6%**
Five year average = 3.7%									
BOOK VALUE PER SHARE ($)	23.09		25.83		27.57		30.57		**35.04**
Average annual increase = 12.9%		11.9%		6.7%		10.9%		14.6%	
AVERAGE BV PER SHARE ($)	22.02		24.46		26.70		29.07		**32.81**
Average annual increase = 12%									
AVG. MARKET / AVG. BOOK	0.74		0.74		0.65		0.62		**0.76**
Five year average = 0.70%									
PRICE EARNINGS RATIO	6.2		6.0		7.0		5.2		**4.7**
Five year average = 5.6%									
RETURN ON EQUITY	12.1%		12.5%		9.3%		11.9%		**16.0%**
Five year average = 12.5%									
RETURN ON ASSETS	7.1%		6.9%		5.1%		6.8%		**9.5%**
Five year average = 7.1%									
DEBT / EQUITY RATIO	0.74		0.90		0.79		0.71		**0.66**
Five year average = 0.75%									
ASSET TURNOVER	42.3%		40.9%		30.3%		39.2%		**49.2%**
Five year average = 40.5%									

Melcor's Asset Base

Melcor has an asset base with a historic cost and with inventory levels which will allow for long term revenue streams and acceptable financial margins.

Melcor's land development asset base is comprised of 4,290 acres of raw undeveloped lands with a cost base of $46,149,000 or about $11,000 per acre.

Approximately 2,100 acres of this land is considered to be long term and is carried at a low cost base.

Melcor's revenue asset base is comprised of 12 buildings with 642,900 square feet of leasable space and a cost base of $24,207,000 or $35 per foot adjusted for joint venture interests. The other revenue assets, including the land lease, the manufactured home community and the golf courses, have a cost base of $6,313,000 net of joint venture interests. They generated revenue of $3,620,000 and contributed $943,000 towards earnings before income taxes.

Crowfoot Centre, Calgary

Birks Building, Edmonton

MELCOR DEVELOPMENTS LTD.